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# **South Africa, Republic of**

## **Exporter Guide**

### **Annual**

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#### **Report Highlights:**

**The decline in the value of the rand relative to the dollar has affected the competitiveness of U.S. agricultural exports to South Africa in recent years. U.S. exports of consumer-ready products also face strong competition from other suppliers, in particular the EU which signed a Free Trade Agreement with South Africa in 2002. However, opportunities still exist for U.S. exports of niche products, and the long term prospects for U.S. food and agricultural exports are positive.**

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## I. MARKET OVERVIEW

South Africa has a market-oriented agricultural economy and is a net exporter of agricultural products. Although South African agricultural production has almost doubled over the past 30 years, erratic weather has caused significant production variations from year to year. The country is self-sufficient in primary foods with the exception of wheat, oilseeds and rice. South Africa's gross farm income for 2001 increased by 13 percent and amounted to R51.2 billion. Cereals (R1.5 billion), fats and oils (R1.4 billion), animal R1.1 billion), wood (R1 billion), and beverages (R0.795 billion) were South Africa's 2001 major imported agricultural commodities.

The United States is a major supplier of agricultural products to South Africa. However, in recent years U.S. exports have been negatively impacted by the decline in the value of the Rand relative to the US dollar. The value of the South African Rand has fallen from an average of 4.30 in 1996 to over 13 Rand per dollar in December 2001. Subsequently it has strengthened to about 8.5 Rand per dollar in February 2003.

Table: Agricultural trade between US and South Africa for calendar year 2001.

South Africa's Imports from US		South Africa's Exports to US	
Jan - Dec 2001	(\$1,000)	Jan - Dec 2001	(\$1,000)
Rice	15,904	Deciduous Fruit	29,512
Wheat	4,438	Fruit, veg. processed	14,677

Poultry meat	2,498	Sugar,sweeteners	6,131
Cotton	519	Ethyl alcohol	0
Tobacco	4,527	Wool	1,824
Pet foods	1,004	Fruit & veg. juices	10,113
Palm oil	0	Wine	11,928
Total listed	89,796	Total listed	96,791
Agricultural Total	99,700	Agricultural Total	108,919
Agric, Fish & Forestry Total	118,667	Agric, Fish & Forestry Total	169,089

The decline in the Dollar value of US exports to South Africa is mainly as a result of the strong Dollar. The increase in South Africa's exports to the United States is attributed to the effect of African Growth and Opportunity Act (AGOA) and the weak Rand.

#### A. U.S. Market Position

South Africa's total agricultural imports for 2001 amounted to R11.7 billion, an 8 percent increase from 2000. The largest exports were from Argentina (R1.6 billion), United States (R0.868 billion), United Kingdom (R0.785 billion), Australia (R0. 692 billion) and Thailand (R0.666 billion). Cereals (R1.5 billion), fats and oils (R1.4 billion), animal (R1.1 billion), wood (R1 billion), and beverages (R0.795 billion) were South Africa's major imported agricultural commodities in 2001.

About 900 American companies operate in South Africa, employing over 125,000 people and with investments worth R19.6 billion. South Africa is the largest market for U.S. exports in sub-Saharan Africa, reaching \$2.8 billion in 2001.

#### B. Advantages and Challenges Facing Sales of U.S. Products in South Africa

Advantages	Challenges
South Africans consumer view U.S. products as high quality.	Limited knowledge of retailers and consumers of the variety and quality of U.S. products.
South African importers seek suppliers who can offer reliable and quality products at competitive prices.	Choose correct food agent or distributor.
The growing retail industry, needs imported food products.	Already acquired tastes and preferences for traditional locally produced products.

Opportunities exist for niche products.	Competition from other countries and locally produced products.
More transparent import regulations.	A large proportion of the population has very limited disposable income.
A steady decline in tariff levels for most products.	

## II. EXPORTER BUSINESS TIPS

### A. Local Business Customs:

Generally, business hours are weekdays from 8:00 a.m. to 1:00 p.m. and 2:00 p.m. to 4:30 p.m. Most offices observe a five-day week, but shops are generally open from 8:30 a.m. to 5:30 p.m. and 8:30 a.m. to 1:00 p.m. on Saturdays. Banks are open weekdays from 9:00 a.m. to 3:30 p.m., and Saturdays from 8:30 a.m. to 11:00 a.m.

### B. Trade and Marketing Services:

**Franchising:** According to the Franchise Association of Southern Africa (FASA), the number of franchises grew by at least 33 percent since the beginning of 2001. The greatest growth was in the service-orientated sector. There are currently 300 reputable franchisors in South Africa, 150 of whom are members of the Association. The largest franchise sector in South Africa is the fast food sector, representing approximately 29 percent of the franchise industry. Of the total, 82 per cent of franchisors are locally developed concepts. The remaining 18 percent operate under master license agreements with international franchisors from countries such as the US, Australia, Canada and Europe.

**Direct Marketing:** Although South Africa's foreign exchange controls and import documentation requirements have been relaxed, it is recommended that U.S. companies contract with a South African agent or partner who would be responsible for marketing the product, holding stock, fulfilling purchasing transactions, and remitting revenue to the U.S. company. Companies interested in learning more about South Africa's mail order sector may contact the South African Direct Marketing Association.

**Joint Ventures/Licensing:** Exchange control regulations stipulate that the South African Reserve Bank (SARB), must approve the payment of royalties. When a licensing agreement involves no manufacturing, the request for exchange control approval is sent directly to SARB. For a company interested in entering into a licensing agreement with a local company to manufacture a product in South Africa, the South African licensee must submit an application to the Industrial Development Branch of the Department of Trade and Industry. The application should include a draft licensing agreement and a questionnaire, (Form MP 337). The Department of Trade and Industry, in turn, will make a recommendation to the SARB. Additional information on licensing regulations can be obtained from the Directorate of Technology Promotion.

**Steps in Establishing an Office:** Foreign companies wishing to establish a subsidiary in South Africa must register it in accordance with the Companies Act of 1973. The Act, which is administered by the Registrar of Companies, regulates the formation, conduct of affairs, and liquidation of companies. The Act makes no distinction between locally-owned or foreign-owned companies. Companies may be either private or public.

**Advertising and Trade Promotion:** South Africa has a sophisticated advertising industry. The four key players in South Africa's advertising industry are the Association of Advertising Agencies (AAA), the Association of Marketers (ASOM), and the two major media bodies, the National Association of Broadcasters (NAB) and the Print Media Association (PMA). Additional information can be obtained from the Association of Marketers and the Association of Advertising Agencies.

### **C. Consumer Tastes and Preferences:**

In the last few years a wide range of new imported products have become available in the market. South African tastes and preferences are becoming more sophisticated and the average consumer is increasingly expecting a wide range of products on supermarket shelves. Local supermarkets are carrying more and more imported and speciality products. A new Pick n' Pay Fresh store brings a whole new meaning of shopping speciality foods by bringing a diverse selection of local and imported goods around the globe to supermarket shelves. Key considerations by consumers in making purchasing decisions are price and quality. The increasing buying power of the black sector of the population is having a positive effect on the market for imported food products. Customary buying patterns by consumers, supermarkets, wholesalers, distributors and chain stores remain largely intact. South African consumers, especially low-income wage earners, have a high degree of brand-loyalty, and are not very price conscious. Major food items are meat, dairy, fruit, vegetables, and grains. Meat and corn meal are the dominant diets among the black population.

### **D. Food Standards and Regulations:**

Refer to Fairs Report SF2021 dated 7/25/2002

### **E. General Import and Inspection Procedures:**

Refer to Fairs Report-SF2021 dated 7/25/2002; and Trade Policy Monitoring Report SF 2007 dated 3/14/2002.

## **III. MARKET SECTOR STRUCTURE AND TRENDS**

### **A. Competition:**

Exports: In 2001, South Africa's agricultural exports reached a total of about R25.2 billion up from 20.1 billion in 2000. Japan (R3.3 billion), United Kingdom (2.4 billion), Netherlands (R2.4 billion), United States (R1.4 billion), and Mozambique (R1.1 billion) were the country's five largest export

destinations. South Africa's major exported agricultural commodities for 2001 were edible fruit and nuts (R4.7 billion), beverages (R3.4 billion), sugars (R2.9 billion), wood (R2.6 billion), and fish and seafood (R2.1 billion).

Imports: South Africa's total imports for 2001 amounted R11.7 billion, 8 percent increase from R10.8 billion of 2000. Its largest partners for imports for 2001 were Argentina (R1.6 billion), United States (R0.868 billion), United Kingdom (R0.785 billion), Australia (R0.692 billion) and Thailand (R0.666 billion). Cereals (R1.5 billion), fats and oils (R1.4 billion), animal R1.1 billion), wood (R1 billion), and beverages (R0.795 billion) were South Africa's major imported agricultural commodities.

## **B. Tariffs:**

South Africa is a member of the World Trade Organization (WTO) and follows the Harmonized Tariff System (HTS) of import classification. U.S. shipments to South Africa qualify for MFN (Most Favored Nation) treatment. South African exports to the U.S. are eligible for the Generalized System of Preferences (GSP) and the African Growth and Opportunity Act (AGOA) benefits. This allows duty free access for almost all South African products imported in to the U.S. market.

There is free exchange of trade between South Africa and Botswana, Lesotho, Namibia, and Swaziland, which comprise the Southern African Customs Union (SACU). The Southern African Development Community (SADC) Free Trade Agreement should also allow the free exchange of goods among the 14 countries of the region when it comes into full effect. The EU-SA Free Trade Agreement introduced during 2000 will result in substantially freer trade between South Africa and the EU by 2008.

As a result of South Africa market access offer for the Uruguay Round, it has significantly reduced its number of tariff lines and bound most to WTO binding levels. It has replaced almost all remaining quantitative control and formula duties with ad valorem duties, with a few anomalies remaining in agriculture. Finally, it has cut back tariff lines from the 80 different levels of the past to eight levels ranging from zero to 30 percent with a few exceptions.

Additional information on import policy and tariffs can be obtained from Board on Tariffs and Trade (BTT).

## **C. Distribution Systems for processed food products:**

Retail trade outlets in South Africa offer the full spectrum available in the United States. These range from the neighborhood convenience drugstore (called a *café*), to the small general dealer, specialty stores handling a single product line (for example, clothing, electronics, furniture), exclusive boutiques, chain stores (groceries, clothing, toiletries, household goods), department stores, cash and carry wholesale-retail outlets, to co-operative store serving rural areas. About 90 percent of inventories of consumer-ready products in these stores are domestically sourced. A major phenomenon in South Africa has been the evolution of hypermarkets, which sell large quantities of almost all consumer goods on a self-serve basis. The Hypermarkets, located in suburban shopping centers/malls, have disrupted

the traditional distribution chain by purchasing directly from manufacturers and bypassing the wholesaler, and with low margins achieving high turnover, thereby placing price pressure on all competing outlets. For products of a technical nature, it may be necessary to appoint an official After-Sales Agent in South Africa. This may be a company that does not import or market the product in question, but rather, because of its geographical reach, technical abilities and goodwill in the market, acts as the certified service agent. Appointing an appropriate after sales agent is crucial in ensuring that the product develops a respected reputation in the South African market.

**Importers:**

In South Africa, only a few importers specialize in one product. Most importers are generalists who import a wide range of food products. However, it is still very important for an exporter to work with someone locally who knows the market well for the specific product in question. Agents who represent one foreign supplier are also relatively rare.

**Wholesalers:**

**Catering Wholesalers:** Catering wholesalers purchase food products from various manufacturers and resell these products predominantly to catering establishments. Catering wholesalers offer the establishments a variety of food products, and some carry a select product range of specially packed "housebrands". They also import large volumes of products that are sold to catering establishments. Consumer goods requiring maintenance of stocks and industrial raw materials often are exported to South Africa through established wholesalers.

**Retailers:** Many U.S. exporters of consumer goods sell directly to South African retail organizations, such as consumer corporations, department stores, chain stores, and cooperative groups of independent retailers, which assume the functions of wholesale buying, selling, and warehousing.

**Broker Agents:** Broker Agents are mostly involved with state or other large food supply contracts. They tender for State contracts on behalf of different manufacturers. Some agents have their own warehouses and distribution facilities.

**Distributor Agents:** The Distributor Agent distributes food products on behalf of manufacturers without necessarily taking ownership of the actual products. A distributor is usually required to adhere to prices determined by the manufacturer and is paid a fee to distribute the products.

**Contract and Independent Caterers:** Contract and Independent caterers purchase food products directly from manufacturers, wholesalers, as well as from catering wholesalers.

## IV. PROSPECTS FOR HIGH VALUE PRODUCTS

South Africa is a major agricultural exporter, with exports of agricultural products valued at \$2.9 billion in 2001. It is mostly a very open economy, importing agricultural products valued at \$1.4 billion during the same year. Principal imports included rice (\$110 million), oil cakes (\$88 million), ethyl alcohol (\$70

million), tobacco (\$53 million) and prepared foods (\$52) million). The devaluation of the South African Rand caused the Dollar value of imports to decline, although Rand value increased.

After Argentina, at \$187 million, (South African Trade Data), the US, at \$101 million, is the second biggest supplier of agricultural products to South Africa. According to US data the value of US agricultural exports to South Africa declined by 18.5% to \$133 million in 2001 mainly due to weak Rand. The regional famine has increased the demand for coarse grains and US white corn sales to South Africa are estimated at about \$45 million in 2002 after virtually nothing was imported in 2001.

Table: Best prospects for increased US agricultural exports to South Africa: US Dollar million

Product	1998	1999	2000	2001	2002 forecast
Course grains	4.18	32.66	8.71	2.17	45.00
Vegetable oils	13.28	0.86	2.71	1.94	2.75
Seeds	6.49	6.89	11.83	7.40	8.50
Pulses	0.68	0.51	1.39	0.20	1.80
Red meats	0.76	1.18	0.20	0.18	1.15

The increase expected for coarse grain is due to white corn imports necessitated by the regional food shortages. Continued interaction between U.S. suppliers and, South African importers and consumers of processed food products through events such as trade shows, trade missions and instore promotions are the key means for increasing U.S. exports to the country.

## V. KEY CONTACTS AND FURTHER INFORMATION

A. Following are contact details of companies mentioned in the report.

Franchise Association of Southern African (FASA)

Tel:27-11-484-1285

Fax:27-11-484-1291

Contact: Mr. Nic Louw, Executive Director

website: <http://www.fasa.co.za>

Email:[fasa@faso.co.za](mailto:fasa@faso.co.za)

South African Paper Industry

Tel:27-11-360-0000

Fax:27-11-816-1405

website: <http://www.sappi.com>

South African Direct Marketing Association

Tel:27-11-482-6440  
Fax:27-11-482-1200  
Contact: Mr. Davy Ivins, Executive Director

Department of Trade and Industry  
Board on Tariffs and Trade  
Tel:27-12-320-2085  
Fax:27-12-320-2085/310-9500

Department of Trade and Industry  
Directorate: Technology Promotion  
Tel:27-12-310-9839  
website: <http://wwwdti.pwv.gov/dtiwww>

South African Companies Regulatory Office  
Registrar of Companies  
Tel:27-12-310-9791  
Fax:27-12-328-3051  
website: <http://www3.dti.gov.za/sacro/>

Association of Marketers (ASOM)  
Tel:27-11-706-1633  
Fax:27-11-706-4151  
Contact: Mr. Derrick Dickens, Executive Director  
[Email:asom@pixie.co.za](mailto:asom@pixie.co.za)

Association of Advertising Agencies (AAA)  
Tel:27-11-781-2772  
Fax:27-11-781-2796  
[Email:lizelle@aaaltd.co.za](mailto:lizelle@aaaltd.co.za)

Industrial Development Corporation of SA, Ltd (IDC)  
Tel:27-11-269-3000  
Fax:27-11-269-3116  
Contacts: Mr. Khaya Ngqula, Managing Director  
Mr. Ted Droste, General Manager  
Website: <http://www.idc.co.za>

## B. Post Contact

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

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